

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORT**

**GOGEBIC COUNTY ROAD COMMISSION
BESSEMER, MICHIGAN**

December 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------------|---|--------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name GOGEBIC COUNTY ROAD COMMISSION | County GOGEBIC |
| Audit Date DECEMBER 31, 2004 | Opinion Date JUNE 16, 2005 | Date Accountant Report Submitted to State: OCTOBER 21, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | X |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|--|--|-------------------------|-------------------------|
| Certified Public Accountant (Firm Name) JOKI, MAKELA & POLLACK, P.L.L.C. | | | |
| Street Address 301 NORTH SUFFOLK STREET | | City IRONWOOD | State MI |
| Accountant Signature <i>Karl T. Ahn CPA</i> | | ZIP 49938 | Date 10/21/05 |

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JOKI, MAKELA & POLLACK, P.L.L.C.

**CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027**

**T. J. MAKELA, C.P.A.
W. J. JOKI, C.P.A.
A. R. POLLACK, C.P.A., C.S.E.P.
MEMBERS**

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
Gogebic County Road Commission
Bessemer, Michigan

We have audited the accompanying financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of Gogebic County Road Commission as of December 31, 2004, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005, on our consideration of Gogebic County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedule on pages 5 through 11 and page 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed in the table of contents as Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Gogebic County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Joti, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
June 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2004

Management's Discussion and Analysis

This section of the Gogebic County Road Commission's (Commission) annual financial report presents our discussion and analysis of the Commission's financial performance during the year ended December 31, 2004. It is to be read in conjunction with the Commission's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending December 31, 2004.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Commission as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Commission's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the Commission that include all services performed by the Commission. These activities are funded by Michigan Transportation Fund monies, local charges for services and federal and state grants.

The statement of net assets shows the Commission's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the Commission. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the Commission; the greater the net asset figure, the healthier the financial position of the Commission generally is. It helps management determine if the Commission will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expenditure basis. It generally shows the operating results for a given year of the Commission. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Commission.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

The Commission's fund financial statements show detail of funds that are determined to be significant, called major funds. The Commission has only one fund. That fund is a special revenue fund, which is the major governmental fund. The Commission has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the Commission reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Commission's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets

The following is a December 31, 2004 and 2003, condensed statement of net assets with a detailed analysis of the statement below.

| | <u>Governmental Activities</u> | |
|---|--------------------------------|---------------------|
| | <u>December 31,</u> | |
| | <u>2004</u> | <u>2003</u> |
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 409 | \$ 1,463 |
| Investments | 1,109,785 | 855,455 |
| Accounts receivable | 746,607 | 1,266,719 |
| Inventories | 498,648 | 537,689 |
| Other current assets | <u>23,753</u> | <u>36,049</u> |
| Total Current Assets | \$ 2,379,202 | \$ 2,697,375 |
| Noncurrent Assets - | | |
| Capital assets, net of accumulated depreciation of: | | |
| 2004 - \$5,180,673; 2003 - \$5,242,967 | <u>5,465,215</u> | <u>3,857,160</u> |
| Total Assets | \$ <u>7,844,417</u> | \$ <u>6,554,535</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

| | | <u>Governmental Activities</u> | |
|---|----|--------------------------------|---------------------|
| | | <u>December 31,</u> | |
| | | <u>2004</u> | <u>2003</u> |
| LIABILITIES | | | |
| Accounts payable | \$ | 29,018 | \$ 10,279 |
| Other current liabilities | | 97,764 | 84,639 |
| Advances | | 199,399 | 220,017 |
| Deferred revenue | | <u>407,958</u> | <u>405,658</u> |
| Total Current Liabilities | \$ | 734,139 | \$ 720,593 |
| Long-term liabilities | | <u>313,372</u> | <u>321,525</u> |
| Total Liabilities | \$ | <u>1,047,511</u> | <u>\$ 1,042,118</u> |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | \$ | 5,465,215 | \$ 3,857,160 |
| Unrestricted | | <u>1,331,691</u> | <u>1,655,257</u> |
| Total Net Assets | \$ | <u>6,796,906</u> | <u>\$ 5,512,417</u> |

The Commission's net assets are \$6,796,906 at December 31, 2004. Capital assets, net of related debt are \$5,465,215. This figure is derived by taking the original costs of the Commission's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets. The Commission had no debt related to fixed assets at December 31, 2004 or 2003.

The unrestricted net assets total \$1,331,691 as of December 31, 2004. This is the net accumulated results of past years' operations.

Statement of Activities

The results of operations for the Commission as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal years ended December 31, 2004 and 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities (Continued)

| | | <u>Governmental Activities</u> | |
|-----------------------------------|----|--------------------------------|---------------------|
| | | <u>Year ended December 31,</u> | |
| | | <u>2004</u> | <u>2003</u> |
| Revenues - | | | |
| Program Revenues: | | | |
| Charges for services | \$ | 898,114 | \$ 865,231 |
| Operating grants and entitlements | | 3,730,515 | 3,507,889 |
| Capital grants and contributions | | <u>1,984,073</u> | <u>3,224,273</u> |
| | \$ | 6,612,702 | \$ 7,597,393 |
| General Revenues: | | | |
| Interest | \$ | 9,802 | \$ 6,349 |
| Gain on asset disposals | | <u>109,666</u> | |
| | \$ | <u>119,468</u> | <u>\$ 6,349</u> |
| Total Revenues | \$ | 6,732,170 | \$ 7,603,742 |
| Functions/Program Expenses - | | | |
| Public works | | <u>5,447,681</u> | <u>5,075,176</u> |
| Increase in Net Assets | \$ | <u>1,284,489</u> | <u>\$ 2,528,566</u> |

The Commission had an overall increase in net assets of \$1,284,489 for the year ended December 31, 2004.

The Commission's total revenues totaled \$6,732,170. Of this amount, \$534,853 or 8% were from federal grants. The federal grants were passed-through the State of Michigan and included Surface Transportation Funds, Federal "D" Funds, Critical Bridge Funds, Federal Emergency Management Funds (FEMA) and Emergency Relief Funds. FEMA funds and Emergency Relief funds were used to reconstruct roads damaged by a flood that occurred in May of 2002. All of these revenues are included in the capital grants revenue category.

State grants totaled \$2,860,144, or 43% of total revenues. The major source of state grants are monies from the Michigan Transportation Fund. These are gas tax revenues that are returned to counties for road maintenance. Other state grants received include snow removal funds, state participation of critical bridge and FEMA funds, forest road funds and state "D" funds. These revenues are split between operating grants and capital grants.

The other major portion of revenues is rental income. The Commission charges rents based on approved State of Michigan, Department of Transportation rates to all of the projects they incur expenses on during the year. The rents are spread across all of the projects and the funding sources for the projects are charged for those costs. Rents totaled \$1,687,928 or 25% of total revenues. The revenues are categorized as operating grants and capital grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities (Continued)

The Commission's total cost to fund all governmental activities was \$5,447,681. All of these costs were for road and bridge construction or reconstruction or maintenance on the road system in Gogebic County. The amount totaled \$5,075,176 for the prior year. This amount fluctuates from year to year based on project funding levels and the scope of work performed on various projects.

Fund Financial Statements

The governmental fund financial statements report the Commission's finances similar to how they have been reported in previous years. The Commission has a fund balance of \$1,645,063 at December 31, 2004. This was an increase of \$554,513 from last year. Reimbursements from the federal and state governments for the flood work completed in 2003 and 2004 were received during 2004 and recorded as revenue in the fund financial statements. Capital outlay purchases totaled \$621,317 and included two pick-up trucks, two tandem trucks and two motor graders.

Budgetary Comparison Schedules - Variance Analysis

The significant budget variances of the Commission for year-end December 31, 2004, included the following:

| <u>Original Budget to Final Budget</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Variance</u> |
|--|----------------------------|-------------------------|-----------------|
| REVENUES | | | |
| Federal aid | \$ 1,343,381 | \$ 1,004,858 | \$ (338,523) |
| State aid: | | | |
| Motor vehicle funds | 2,543,528 | 2,655,727 | 112,199 |
| Michigan State Police - FEMA funds | 0 | 224,169 | 224,169 |
| State "D" funds | 149,486 | 87,540 | (61,946) |
| County raised and other revenues | 1,178,500 | 1,263,520 | 85,020 |
| EXPENDITURES | | | |
| Primary roads | 2,063,500 | 1,624,000 | 439,500 |
| Equipment expense - net | 250,000 | (310,300) | 560,300 |
| Capital outlay - net | 205,000 | 338,400 | (133,400) |

The federal aid revenue variance was (\$338,523). The final budget figure was reduced as awards for various projects were granted but the Commission was unable to begin work during the 2004 construction season. Also, the original budget included the State share of FEMA funds which also showed a variance above.

The State aid Motor Vehicle Funds revenues were originally budgeted to be less due to uncertainty of amounts caused by State of Michigan budget shortfalls.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Budgetary Comparison Schedules - Variance Analysis (Continued)

County raised and other revenues variance was \$85,020. Most of the variance was due to recording gains on asset disposals of \$109,000.

The primary road expenditure budget variance was \$439,500. When the original budget was adopted for December 31, 2004, the Commission had a tentative plan of which projects would be completed in 2004. This is done five to six months prior to the construction season. As the year progresses, changes are made to the project schedules based on priority and safety issues.

The equipment expense – net variance of \$560,300 was caused by equipment rental use being greater than originally anticipated.

The capital outlay – net variance of (\$133,400) was caused by spending more money on capital outlay in the current year. Various purchases made in 2004 were originally approved in 2003.

The initial budget for the December 31, 2004 year-end was adopted by the Commission on December 22, 2003, with the final amendments made on December 20, 2004.

Final Budget to Actual

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------|-------------------------|---------------|-----------------|
| EXPENDITURES | | | |
| Primary roads | \$ 1,624,000 | \$ 1,751,601 | \$ (127,601) |
| Local roads | 1,895,700 | 1,985,227 | (89,527) |
| Services provided | 800,000 | 861,862 | (61,862) |
| Equipment expense - net | (310,300) | (198,767) | (111,533) |

The Commission overspent in various expenditure categories during the year and these items are reported as budget violations in our supplemental report. The private and local road expenditures were more than budgeted as additional revenue sources were received during the year, which offset the amounts. Services for trunkline maintenance were over budget as more work was done on trunkline maintenance. This also had a corresponding revenue increase. Equipment expense – net included capital outlay items purchased and expensed in 2004 although approval was in a prior year and originally budgeted as such.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

At December 31, 2004 the Commission had \$5,465,215 invested in capital assets. This amount increased during the past fiscal year by \$1,608,055, consisting of additions totaling \$1,984,073, depreciation charges of \$351,133 and disposals of net assets with a net book value of \$24,885. The additions included two pick-up trucks, two tandem trucks, two motor graders and various office equipment totaling \$621,317 and infrastructure additions of \$1,362,756. The infrastructure capitalized includes various road and bridge construction and reconstruction completed in 2004 that meets the State of Michigan Department of Transportation guidelines for capitalization. The Commission was given the option of reporting infrastructure on a prospective basis and chose to do so beginning with projects completed during 2003.

Debt

The Commission had \$313,372 of long-term liabilities at December 31, 2004. The entire amount is for accrued vacation and sick benefits payable to employees. The liability for vacation and sick benefits will not be relieved until the benefits are paid out to employees.

Future Considerations

With the State of Michigan, federal government and the local county, city and township governments facing financial crisis and spending issues, the funding for construction and maintenance projects are in the hands of the state, federal and local governments. The level of work the Road Commission performs is based on this revenue.

Contacting the Commission

If you have any questions about this report or need additional information, contact the Business Manager at the Gogebic County Road Commission, Courthouse Annex, Bessemer, MI 49911.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF NET ASSETS
GOGEBIC COUNTY ROAD COMMISSION
December 31, 2004

| ASSETS | |
|---|---------------------|
| CURRENT ASSETS | |
| Cash | \$ 409 |
| Investments | 1,109,785 |
| Accounts receivable: | |
| State of Michigan | 735,954 |
| Due from other governmental units | 10,653 |
| Inventories: | |
| Equipment parts and materials | 287,760 |
| Road materials | 210,888 |
| Prepaid insurance | <u>23,753</u> |
| TOTAL CURRENT ASSETS | \$ 2,379,202 |
| NON CURRENT ASSETS | |
| Capital assets | \$ 10,645,888 |
| Less - accumulated depreciation | <u>(5,180,673)</u> |
| TOTAL NON CURRENT ASSETS | \$ 5,465,215 |
| TOTAL ASSETS | <u>\$ 7,844,417</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable | \$ 29,018 |
| Salaries, wages and related benefits | 97,764 |
| Advances: | |
| Private driveway plowing | 88,497 |
| State trunkline equipment purchase | 52,040 |
| State trunkline maintenance | 58,862 |
| Deferred revenue | <u>407,958</u> |
| TOTAL CURRENT LIABILITIES | \$ 734,139 |
| LONG-TERM LIABILITIES - | |
| Vacation and sick benefits | <u>313,372</u> |
| TOTAL LIABILITIES | <u>\$ 1,047,511</u> |
| NET ASSETS | |
| Investment in capital assets, net of related debt | \$ 5,465,215 |
| Unrestricted | <u>1,331,691</u> |
| TOTAL NET ASSETS | <u>\$ 6,796,906</u> |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
GOGEBIC COUNTY ROAD COMMISSION
Year ended December 31, 2004

GOVERNMENTAL FUNCTIONS -

Program expenses -

Public works:

| | |
|----------------------------|----------------|
| Primary road maintenance | \$ 1,108,535 |
| Local road maintenance | 1,265,539 |
| Services provided | 861,862 |
| Equipment expense | 1,611,870 |
| Net administrative expense | 256,895 |
| Net compensated absences | (8,153) |
| Depreciation expense | <u>351,133</u> |

TOTAL PROGRAM EXPENSES \$5,447,681

Program revenues:

| | |
|--------------------------------|----------------|
| Federal Aid | \$ 534,853 |
| State Aid | 2,860,144 |
| Contributions from local units | 280,524 |
| Charges for services | 898,114 |
| Rents | 1,687,932 |
| Other | <u>351,135</u> |

TOTAL PROGRAM REVENUES \$6,612,702

NET PROGRAM REVENUES \$1,165,021

GENERAL REVENUES:

| | |
|-------------------------|----------------|
| Interest | \$ 9,802 |
| Gain on asset disposals | <u>109,666</u> |

TOTAL GENERAL REVENUES \$ 119,468

CHANGE IN NET ASSETS FOR THE YEAR \$1,284,489

NET ASSETS - January 1, 2004 5,512,417

NET ASSETS - December 31, 2004 \$6,796,906

The accompanying notes are an integral part of the
financial statements.

BALANCE SHEET - GOVERNMENTAL FUND

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2004

ASSETS

| | |
|-----------------------------------|---------------------|
| Cash | \$ 409 |
| Investments | 1,109,785 |
| Accounts receivable: | |
| State of Michigan | 735,954 |
| Due from other governmental units | 10,653 |
| Inventories: | |
| Equipment parts and materials | 287,760 |
| Road materials | 210,888 |
| Prepaid insurance | <u>23,753</u> |
| | <u>\$ 2,379,202</u> |

LIABILITIES AND EQUITY

| | |
|--------------------------------------|------------------------------|
| Accounts payable | \$ 29,018 |
| Salaries, wages and related benefits | 97,764 |
| Advances: | |
| Private driveway plowing | 88,497 |
| State trunkline equipment purchase | 52,040 |
| State trunkline maintenance | 58,862 |
| Deferred revenue | <u>407,958</u> |
| | |
| | TOTAL LIABILITIES \$ 734,139 |
| Unreserved fund equity | <u>1,645,063</u> |
| | <u>\$ 2,379,202</u> |

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
GOGEBIC COUNTY ROAD COMMISSION
December 31, 2004

| | |
|--|--------------|
| Total fund equity of the governmental fund | \$ 1,645,063 |
|--|--------------|

Amounts reported for the governmental activities in the statement of net assets are different because:

 Additions:

 Capital assets used in governmental activities are not financial resources and
 therefore are not reported as assets in governmental funds.

| | | |
|-----------------------------------|--------------------|-----------|
| The cost of the capital assets is | \$ 10,645,888 | |
| Accumulated depreciation is | <u>(5,180,673)</u> | 5,465,215 |

 Reductions:

 Long-term liabilities are not due and payable in the current period and
 therefore are not reported as liabilities in governmental funds.

| | |
|------------------------------------|------------------|
| Accrued vacation and sick benefits | <u>(313,372)</u> |
|------------------------------------|------------------|

| | |
|---|---------------------|
| Total net assets of governmental activities | <u>\$ 6,796,906</u> |
|---|---------------------|

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND
GOGEBIC COUNTY ROAD COMMISSION
Year ended December 31, 2004

| | |
|--------------------------------------|--------------------|
| Total revenues | \$5,579,335 |
| Total expenditures | <u>5,024,822</u> |
| Excess of revenues over expenditures | \$ 554,513 |
| Fund balance at January 1, 2004 | <u>1,090,550</u> |
| FUND BALANCE AT DECEMBER 31, 2004 | <u>\$1,645,063</u> |

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF REVENUES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2004

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---------------------|---------------------|--|
| Federal Aid: | | | |
| Surface Transportation funds | | \$ 230,825 | |
| Federal "D" funds | | 97,055 | |
| Critical Bridge funds | | 152 | |
| Federal Emergency Management funds | | 691,108 | |
| Emergency Relief funds | | <u>109,829</u> | |
| | \$ 1,004,858 | \$ 1,128,969 | \$ 124,111 |
| State Aid: | | | |
| Michigan Transportation Fund: | | | |
| Engineering | | \$ 10,000 | |
| Primary road | | 1,601,342 | |
| Local road | | 693,892 | |
| Primary urban road | | 44,595 | |
| Local urban road | | 8,731 | |
| Snow removal | | <u>279,727</u> | |
| | \$ 2,655,727 | \$ 2,638,287 | \$ (17,440) |
| State Critical Bridge funds | | 29 | 29 |
| Michigan State Police - Federal Emergency Management funds | 224,169 | 224,169 | |
| Economic Development Fund: | | | |
| State "D" funds | \$ 87,540 | \$ 89,775 | \$ 2,235 |
| Forest Road funds | <u>200,000</u> | <u>200,000</u> | |
| | <u>\$ 287,540</u> | <u>\$ 289,775</u> | <u>\$ 2,235</u> |
| | \$ 3,167,436 | \$ 3,152,260 | \$ (15,176) |
| County raised and other revenues: | | | |
| Contributions from: | | | |
| Cities | | \$ 5,857 | |
| Townships | | 274,667 | |
| Charges for services: | | | |
| State trunkline maintenance | | 784,824 | |
| State trunkline nonmaintenance | | 29,979 | |
| Private driveway plowing | | 72,806 | |
| Other | | 10,505 | |
| Interest and dividends earned | | 9,802 | |
| Gain on asset disposals | | <u>109,666</u> | |
| | <u>1,263,520</u> | <u>\$ 1,298,106</u> | <u>34,586</u> |
| TOTAL REVENUES | <u>\$ 5,435,814</u> | <u>\$ 5,579,335</u> | <u>\$ 143,521</u> |

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2004

| | Budget | Actual | Variance Favorable (Unfavorable) |
|--|-------------|--------------------|--|
| Primary road: | | | |
| Heavy maintenance | | \$ 690,303 | |
| Maintenance | | 1,055,130 | |
| Primary road structures - maintenance | | <u>6,168</u> | |
| | \$1,624,000 | \$1,751,601 | \$ (127,601) |
| Local road: | | | |
| Heavy maintenance | | \$ 703,919 | |
| Maintenance | | 1,233,645 | |
| Local road structures: | | | |
| Heavy maintenance | | 41,046 | |
| Maintenance | | <u>6,617</u> | |
| | 1,895,700 | \$1,985,227 | (89,527) |
| Services provided: | | | |
| State trunkline maintenance | | \$ 759,077 | |
| State trunkline nonmaintenance | | 29,979 | |
| Private driveway plowing | | <u>72,806</u> | |
| | 800,000 | \$ 861,862 | (61,862) |
| Equipment expense - net: | | | |
| Direct | | \$ 814,298 | |
| Indirect | | 509,200 | |
| Operating | | 165,667 | |
| Less equipment rental | | <u>(1,687,932)</u> | |
| | (310,300) | \$ (198,767) | (111,533) |
| Administrative expenses - net: | | | |
| Administrative expense | | \$ 349,696 | |
| Less: | | | |
| Handling charges | | (6,299) | |
| Overhead - state trunkline maintenance | | (76,200) | |
| Purchase discounts | | (520) | |
| Other | | <u>(661)</u> | |
| | 263,610 | \$ 266,016 | (2,406) |

STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND -
BUDGET AND ACTUAL (CONTINUED)

| | Budget | Actual | Variance Favorable (Unfavorable) |
|------------------------|------------------------|------------------------|--|
| Capital outlay - net: | | | |
| Capital outlay | | \$ 621,317 | |
| Less: | | | |
| Equipment retirements | | (24,885) | |
| Depreciation | | <u>(237,549)</u> | |
| | <u>338,400</u> | <u>\$ 358,883</u> | <u>(20,483)</u> |
| TOTAL EXPENDITURES | <u>\$4,611,410</u> | <u>\$5,024,822</u> | <u>\$ (413,412)</u> |

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2004

| | |
|--|------------|
| Total net change in fund balance - governmental fund | \$ 554,513 |
|--|------------|

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation expense in the period.

| | | |
|----------------------|------------------|-----------|
| Depreciation expense | \$ (351,133) | |
| Capital outlays | <u>1,984,073</u> | 1,632,940 |

Equipment retirements with net book value is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. (24,885)

The January 1, 2004 net assets balance included accounts receivable recorded on the full accrual basis of accounting but was recorded as current year revenue for the governmental fund financial statements. This is the amount of the accounts receivable required to be removed. (886,232)

In the statement of activities, operating expenses for compensated absences are measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount paid for compensated absences was more than the amount earned by \$8,153. 8,153

| | |
|---|---------------------|
| Change in net assets of governmental activities | <u>\$ 1,284,489</u> |
|---|---------------------|

The accompanying notes are an integral part of the financial statements.

NOTES TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS
GOGEBIC COUNTY ROAD COMMISSION

December 31, 2004

NOTE A - REPORTING ENTITY

Gogebic County Road Commission (the Commission) was established pursuant to the County Road Law (MCL 224.1) and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Commission may not issue debt without the County's approval, and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present only Gogebic County Road Commission, a discretely presented component unit of Gogebic County, Michigan.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission General Operating Fund.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Gogebic County Road Commission conform to accounting principles generally accepted in the United States as applicable to governmental units. The following is a summary of the significant policies:

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the Commission. The activities of the Commission are considered to be governmental activities.

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resource measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Commission's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. The Commission has one function, public works, and its program revenues are generated from charges for services, operating grants and contributions and capital grants.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, which are considered separate fiscal and accounting entities. The Commission has only one fund. That fund is a special revenue fund which is the major governmental fund.

Governmental funds are accounted for using the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current fund liabilities. The Commission considers revenues to be available if collected within 60 days of the end of the period. Expenditure-based grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources.

Investments

Investments are stated for financial-statement purposes at their fair market value.

Accounts Receivable

The Road Commission grants credit to various customers for various types of services performed. Included among its customers are federal, state and local units of government. The direct charge-off method is used for recognizing uncollectible accounts. All accounts deemed to be uncollectible as of the end of the year are charged off as an expenditure. The effects of using this method approximate those of an allowance method.

Inventories

Inventories are priced at cost as determined by the moving average method, except for stockpiled road materials, which are priced at the 2004 average unit production cost. Inventory items are charged to road construction, equipment maintenance, repairs and operations as they are used.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets include land, buildings, equipment and infrastructure and are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an acquisition cost of more than \$1,000 with an estimated useful life of at least four years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks of infrastructure assets acquired, constructed or substantially rehabilitated be capitalized and depreciated. The Commission has capitalized the current year infrastructure as required by GASB 34 and has reported the infrastructure in the Statement of Net Assets. The Commission has the option to report infrastructure prospectively and has chosen to do so beginning with projects completed in 2003.

The costs of capital assets are charged to expense using an annual allocation of depreciation expense. The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function.

The capital assets are depreciated using the sum-of-the-years-digits method for road equipment and straight-line method for all other fixed assets over the useful lives as established by the Uniform Accounting Procedures Manual for Michigan County Road Commissions. The lives are summarized as follows:

| | |
|--------------------------|---------------|
| Buildings | 30 – 50 years |
| Road equipment | 5 – 8 years |
| Shop equipment | 10 years |
| Engineering department | 4 – 10 years |
| Office equipment | 4 – 10 years |
| Infrastructure – Roads | 8 – 30 years |
| Infrastructure - Bridges | 12 – 50 years |

Investment in Capital Assets, Net of Related Debt

The portion of net assets of the Commission that consists of capital assets, net of accumulated depreciation and reduced by any long-term liabilities attributable to the acquisition of those assets is reported as investment in capital assets, net of related debt. There were no long-term liabilities associated with these assets at December 31, 2004.

Unrestricted Net Assets

Net assets not meeting the criteria above are considered unrestricted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Prior to January 1, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the Board of County Road Commissioners for their review and consideration. The Board of County Road Commissioners conducts a public budget hearing and subsequently adopts the operating budget. The budget is adopted on a functional level. The Board of County Road Commissioners has authorized the chief administrative officer to amend the operating budget, when necessary, by transferring up to 20% from one line item to another. The operating budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended, by the Board of County Road Commissioners. The budget lapses on December 31.

NOTE C - CASH AND INVESTMENTS

Cash is deposited with the Gogebic County Treasurer, the depository agent for cash balances of the various funds of Gogebic County. The County Treasurer combines cash balances for investment purposes. A detailed accounting of cash balances allocable to the various funds is maintained.

Deposits and investments were made in accordance with State of Michigan statutes and under authorization of the County Board of Commissioners. State of Michigan statutes authorize investments in: direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CASH AND INVESTMENTS (CONTINUED)

The Road Commission uses an imprest system with zero balances for its accounts payable and payroll checking accounts. The portion of these two accounts covered by FDIC insurance cannot be determined because the accounts are among several Gogebic County accounts in the same local bank. The investment balance reflected on the balance sheet of the General Operating Fund is represented by deposits included in Gogebic County's common municipal investment mutual fund accounts with all transfers to the accounts payable and payroll accounts approved by the Gogebic County's Board of Commissioners. These investment types are not classified in categories of risk because they are not securities.

NOTE D - LONG-TERM LIABILITIES

Long-term liabilities of the Road Commission is summarized as follows:

| | Balance at January 1, <u>2004</u> | <u>Net Change</u> | Balance at December 31, <u>2004</u> |
|------------------------|---|-------------------|---|
| Long-Term Liabilities: | | | |
| Vacation benefits | \$ 93,913 | \$ (1,102) | \$ 92,811 |
| Sick leave benefits | <u>227,612</u> | <u>(7,051)</u> | <u>220,561</u> |
| TOTALS | <u>\$ 321,525</u> | <u>\$ (8,153)</u> | <u>\$ 313,372</u> |

None of the balance is considered a current liability.

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service and pay rates of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in subsequent calendar years.

Sick Leave Benefit Policies

Road Commission employment policies provide that each full-time employee shall earn one day of sick leave credit for each month of service. Sick leave credits may be accumulated to a maximum of 120 days. Payment of 60% of accumulated benefits will be made when an employee takes a normal retirement; payment of 50% will be made when an employee dies or is discharged or laid off; and payment of 25% will be made to an employee who voluntarily separates from employment with the Road Commission.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E – CAPITAL ASSETS

Following is a summary of the changes in the capital assets and allowances for depreciation for the year ended December 31, 2004:

| | Balance at January 1, <u>2004</u> | <u>Additions</u> | <u>Deductions</u> | Balance at December 31, <u>2004</u> |
|--|---|-------------------------|-----------------------|---|
| Land, buildings, equipment and infrastructure: | | | | |
| Land and improvements | \$ 1,617 | | | \$ 1,617 |
| Buildings | 793,534 | | | 793,534 |
| Road equipment | 4,887,705 | \$ 619,420 | \$ 427,121 | 5,080,004 |
| Shop equipment | 129,013 | | | 129,013 |
| Yard and storage equipment | 185,852 | | | 185,852 |
| Office equipment | 100,342 | 1,897 | 11,191 | 91,048 |
| Depletable assets | 68,757 | | | 68,757 |
| Infrastructure | <u>2,933,307</u> | <u>1,362,756</u> | | <u>4,296,063</u> |
| TOTAL LAND, BUILDINGS EQUIPMENT AND INFRASTRUCTURE | \$ 9,100,127 | \$ 1,984,073 | \$ 438,312 | \$ 10,645,888 |
| Allowances for depreciation: | | | | |
| Buildings | \$ 382,440 | \$ 20,178 | | \$ 402,618 |
| Road equipment | 4,541,743 | 189,331 | \$ 402,892 | 4,328,182 |
| Shop equipment | 114,021 | 2,002 | | 116,023 |
| Yard and storage equipment | 136,821 | 17,893 | | 154,714 |
| Office equipment | 67,942 | 8,145 | 10,535 | 65,552 |
| Infrastructure | <u> </u> | <u>113,584</u> | | <u>113,584</u> |
| TOTAL ALLOWANCES FOR DEPRECIATION | <u>\$ 5,242,967</u> | <u>\$ 351,133</u> | <u>\$ 413,427</u> | <u>\$ 5,180,673</u> |
| NET CARRYING AMOUNT | <u>\$ 3,857,160</u> | <u>\$ 1,632,940</u> | <u>\$ 24,885</u> | <u>\$ 5,465,215</u> |

Depreciation expense is charged to expense categories based on the usage of equipment for each of the categories. It is the Commission's policy to take no depreciation in the year of completion for infrastructure assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - RETIREMENT SYSTEM

The Gogebic County Road Commission participates in the Gogebic County Employee Retirement System, a defined benefit pension plan administered by Gogebic County. The plan covers substantially all of its employees and its assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan. Required schedules of funding progress and actuarial valuation information may be found in Note Q - Retirement System of the County's separately issued Audited Financial Statements.

All full-time employees are eligible to participate in the System. Employees who retire at or after age 55 with 30 years of credited service, or age 60 with 8 years of credited service, are entitled to an annual retirement benefit, payable monthly for life, equal to total service years times 2.0% of final average compensation, except for one employee whose monthly benefit uses a 2.25% negotiated rate. Final average compensation is the employee's highest five consecutive years out of the last ten, except for employees with over 30 years of service whose final average compensation is the employee's highest three consecutive years out of the last five.

Benefits fully vest on reaching 8 years of service. The System also provides death and disability benefits. Benefits are established by State statute. Members not fully vested are required to contribute 3% of the first \$4,200 of annual compensation plus 5% of compensation in excess of \$4,200. The Road Commission makes all required payments for fully vested members. Members who were not fully vested contributed \$24,378 to the System during 2004. The Road Commission's contributions to the System for the years ended December 31, 2002, 2003 and 2004, were \$173,381, \$137,482 and \$124,686, respectively, in accordance with the contribution requirements determined by actuarial valuations of the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission manages its risk by being a member of the Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a public entity risk pool providing general liability, auto, property and crime insurance coverage to its participating members and the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Road Commission is sharing risks with other members of the pools and pays an annual premium to each pool for the following coverage:

| <u>Type of Coverage</u> | <u>Coverage</u> | <u>Deductible</u> |
|---------------------------------|------------------|-------------------|
| General liability | \$10,500,000 | \$1,000 |
| Physical damage: | | |
| Building Ordinance Coverage | 1,000,000 | 500 |
| Property in Transit | 50,000 | 500 |
| At Unnamed Locations | 10,000 | 500 |
| Crime | 25,000 | 1,000 |
| Workers' compensation | Statutory limits | 0 |
| Employment Practices and Public | | |
| Officials Errors and Omissions | 10,000,000 | 0 |

The pools provide this coverage to members by internally assuming risks and reinsuring risks through commercial companies. The MCRCSIP has reinsurance up to \$10,500,000 for each member per occurrence and the CRASIF has reinsurance up to \$10,000,000 and each has the authority to make additional assessments to the members.

The Road Commission's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The Road Commission does not know the incurred but not reported claims, but estimates that the potential unpaid and unreported claims do not exceed the amount of assets in either risk pool available to pay claims.

The Road Commission carries commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - DEFERRED COMPENSATION PLAN

Road Commission employees are eligible to participate in a deferred compensation plan in addition to the normal retirement plan discussed in Note F above. The Plan was created in accordance with Internal Revenue Code Section 457. The Plan is available to substantially all full-time employees and permits employees to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) to be held in a trust for the exclusive benefit of Plan participants and their beneficiaries.

Investments are managed by the Plan's trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

It has been determined that the Road Commission does not have any fiduciary responsibility regarding this Plan and, accordingly, has not reflected any of its assets or activities in its financial statements.

NOTE I - MICHIGAN PUBLIC ACT 621 OF 1978 DISCLOSURE

Michigan Public Act 621 of 1978 (MCL 141.421), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2004, the Road Commission incurred expenditures in certain of its budgetary activities which were in excess of the amounts appropriated.

NOTE J - SINGLE AUDIT ACT

The Road Commission has expended over \$500,000 of federal financial assistance during the year ended December 31, 2004, and is included in Gogebic County, Michigan's county-wide single audit conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. As such, the required reporting is included in the County's separately issued Audited Financial Statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) ROAD PROJECTS

During April and May of 2002, several areas of Gogebic County encountered severe flooding, which caused extensive damage to various roads and bridges. The area was declared a major disaster by the President of the United States, which makes the area FEMA grant eligible.

FEMA determined that the Road Commission could receive grant funding for repairs and reconstruction of approximately \$2,475,000. Of this amount, 75% or approximately \$1,850,000 would be funded by federal grants, 12.5% by State of Michigan grants and 12.5% by local match.

As of December 31, 2004, \$1,546,398 of total federal expenditures have been incurred and reported as expenditures in the Road Commission fund-based financial statements. Federal expenditures totaled \$97,269 for the year ended December 31, 2004 and are subject to Single Audit Act consideration as described in Note J.

Revenues of \$691,108 have been recorded as federal aid in the year ended December 31, 2004, governmental fund financial statements. The difference between expenditures incurred and revenue recorded was because the recognition of revenue policy as described in Note B to these financial statements was not met for the governmental fund financial statements in prior years. The difference was recorded as revenue in the government-wide financial statements in prior years.

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON SCHEDULE
GOGEBIC COUNTY ROAD COMMISSION
DECEMBER 31, 2004

| | Original Budget | Final Budget | Actual |
|--------------------------------------|--------------------|--------------------|--------------------|
| REVENUES | | | |
| Federal aid | \$1,343,381 | \$1,004,858 | \$1,128,969 |
| State aid: | | | |
| Motor Vehicle funds | 2,543,528 | 2,655,727 | 2,638,287 |
| State Critical Bridge funds | | | 29 |
| Michigan State Police - FEMA funds | | 224,169 | 224,169 |
| State "D" funds | 149,486 | 87,540 | 89,775 |
| Forest Road funds | 200,000 | 200,000 | 200,000 |
| County raised and other revenues | <u>1,178,500</u> | <u>1,263,520</u> | <u>1,298,106</u> |
| TOTAL REVENUES | \$5,414,895 | \$5,435,814 | \$5,579,335 |
| EXPENDITURES | | | |
| Primary roads | \$2,063,500 | \$1,624,000 | \$1,751,601 |
| Local roads | 1,894,495 | 1,895,700 | 1,985,227 |
| Services provided: | | | |
| State trunkline maintenance | 650,000 | 690,000 | 759,077 |
| State trunkline nonmaintenance | 50,000 | 30,000 | 29,979 |
| Driveway plowing | 65,000 | 80,000 | 72,806 |
| Equipment expense - net | 250,000 | (310,300) | (198,767) |
| Administrative expense - net | 236,900 | 263,610 | 266,016 |
| Capital outlay - net | <u>205,000</u> | <u>338,400</u> | <u>358,883</u> |
| TOTAL EXPENDITURES | <u>\$5,414,895</u> | <u>\$4,611,410</u> | <u>\$5,024,822</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | \$ 0 | \$ 824,404 | \$ 554,513 |
| Fund balance at January 1, 2004 | <u>1,090,550</u> | <u>1,090,550</u> | <u>1,090,550</u> |
| FUND BALANCE AT DECEMBER 31, 2004 | <u>\$1,090,550</u> | <u>\$1,914,954</u> | <u>\$1,645,063</u> |

The accompanying notes are an integral part of the financial statements.

OTHER
FINANCIAL
INFORMATION

ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2004

| | Primary Road Fund | Local Road Fund | County Road Commission Fund | Total |
|--|-------------------------|-----------------------|-----------------------------------|--------------------|
| Total revenues | \$3,211,296 | \$ 1,460,123 | \$ 907,916 | \$5,579,335 |
| Total expenditures | <u>2,273,443</u> | <u>1,938,732</u> | <u>812,647</u> | <u>5,024,822</u> |
| Excess (deficiency) of revenues over expenditures | \$ 937,853 | \$ (478,609) | \$ 95,269 | \$ 554,513 |
| Other financing source (use)- Optional transfers | <u>(530,000)</u> | <u>530,000</u> | <u> </u> | <u> </u> |
| Excess of revenues and other financing source over expenditures and other financing use | \$ 407,853 | \$ 51,391 | \$ 95,269 | \$ 554,513 |
| Fund balance at January 1, 2004 | <u>625,702</u> | <u>464,848</u> | <u> </u> | <u>1,090,550</u> |
| FUND BALANCE AT DECEMBER 31, 2004 | <u>\$1,033,555</u> | <u>\$ 516,239</u> | <u>\$ 95,269</u> | <u>\$1,645,063</u> |

The accompanying notes are an integral part of the financial statements.

ANALYSIS OF REVENUES
GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2004

| | Primary Road Fund | Local Road Fund | County Road Commission Fund | Total |
|---|-------------------------|-----------------------|-----------------------------------|--------------------|
| Federal Aid: | | | | |
| Surface Transportation funds | \$ 230,825 | | | \$ 230,825 |
| Federal "D" funds | 97,055 | | | 97,055 |
| Critical Bridge funds | | \$ 152 | | 152 |
| Federal Emergency Management funds | 658,030 | 33,078 | | 691,108 |
| Emergency Relief funds | | <u>109,829</u> | | <u>109,829</u> |
| | \$ 985,910 | \$ 143,059 | | \$ 1,128,969 |
| State Aid: | | | | |
| Michigan Transportation Fund: | | | | |
| Engineering | \$ 7,000 | \$ 3,000 | | \$ 10,000 |
| Allocation | 1,601,342 | 693,892 | | 2,295,234 |
| Urban road | 44,595 | 8,731 | | 53,326 |
| Snow removal | <u>114,022</u> | <u>165,705</u> | | <u>279,727</u> |
| | \$1,766,959 | \$ 871,328 | | \$2,638,287 |
| State Critical Bridge funds | | 29 | | 29 |
| Michigan State Police - Federal Emergency Management funds | 200,731 | 23,438 | | 224,169 |
| Economic Development Fund: | | | | |
| State "D" funds | \$ 89,775 | | | \$ 89,775 |
| Forest Road funds | <u>105,000</u> | <u>\$ 95,000</u> | | <u>200,000</u> |
| | <u>\$ 194,775</u> | <u>\$ 95,000</u> | | <u>\$ 289,775</u> |
| | \$2,162,465 | \$ 989,795 | | \$3,152,260 |
| County raised and other revenues: | | | | |
| Contributions from: | | | | |
| Cities | | \$ 5,857 | | \$ 5,857 |
| Townships | | 274,667 | | 274,667 |
| Charges for services: | | | | |
| State trunkline maintenance | | | \$ 784,824 | 784,824 |
| State trunkline nonmaintenance | | | 29,979 | 29,979 |
| Private driveway plowing | | | 72,806 | 72,806 |
| Other | | | 10,505 | 10,505 |
| Interest and dividends earned | | | 9,802 | 9,802 |
| Gain on asset disposals | <u>\$ 62,921</u> | <u>46,745</u> | | <u>109,666</u> |
| | <u>\$ 62,921</u> | <u>\$ 327,269</u> | <u>\$ 907,916</u> | <u>\$1,298,106</u> |
| TOTAL REVENUES | <u>\$3,211,296</u> | <u>\$1,460,123</u> | <u>\$ 907,916</u> | <u>\$5,579,335</u> |

The accompanying notes are an integral part of the financial statements.

ANALYSIS OF EXPENDITURES
GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2004

| | Primary Road Fund | Local Road Fund | County Road Commission Fund | Total |
|--|-------------------------|-----------------------|-----------------------------------|---------------------|
| Primary road: | | | | |
| Heavy maintenance | \$ 690,303 | | | \$ 690,303 |
| Maintenance | 1,055,130 | | | 1,055,130 |
| Primary road structures - maintenance | <u>6,168</u> | | | <u>6,168</u> |
| | \$ 1,751,601 | | | \$ 1,751,601 |
| Local road: | | | | |
| Heavy maintenance | | \$ 703,919 | | \$ 703,919 |
| Maintenance | | 1,233,645 | | 1,233,645 |
| Local road structures: | | | | |
| Heavy maintenance | | 41,046 | | 41,046 |
| Maintenance | | <u>6,617</u> | | <u>6,617</u> |
| | | \$ 1,985,227 | | \$ 1,985,227 |
| Services provided: | | | | |
| State trunkline maintenance | | | \$ 759,077 | \$ 759,077 |
| State trunkline nonmaintenance | | | 29,979 | 29,979 |
| Private driveway plowing | | | <u>72,806</u> | <u>72,806</u> |
| | | | \$ 861,862 | \$ 861,862 |
| Equipment expense - net | (62,989) | (86,563) | (49,215) | (198,767) |
| Administrative expenses - net | 124,692 | 141,324 | | 266,016 |
| Capital outlay - net | <u>460,139</u> | <u>(101,256)</u> | <u></u> | <u>358,883</u> |
| TOTAL EXPENDITURES | <u>\$ 2,273,443</u> | <u>\$ 1,938,732</u> | <u>\$ 812,647</u> | <u>\$ 5,024,822</u> |

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL
REPORT

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
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IRONWOOD, MICHIGAN 49938-2027

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A. R. POLLACK, C.P.A., C.S.E.P.
MEMBERS

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Commissioners
Gogebic County Road Commission
Bessemer, Michigan

We have audited the financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gogebic County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Gogebic County Road Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below as 04-1.

04-1 Michigan Public Act 621 of 1978

Michigan Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2004, the Road Commission incurred expenditures in certain of its budgetary activities which were in excess of amounts appropriated.

We recommend that the Road Commission review the requirements of Michigan Public Act 621 of 1978, amend its budget in accordance therewith in the future and require conformity to the Act. Road Commission management agrees and will take necessary steps to comply with the Act in the future.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gogebic County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other insignificant matters involving the internal control over financial reporting that we have reported to management of Gogebic County Road Commission verbally during our audit.

This report is intended solely for the information of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
June 16, 2005